

Message Text

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PAGE 01 GENEVA 10103 01 OF 03 041200Z
ACTION STR-07

INFO OCT-01 EUR-12 IO-13 ISO-00 STRE-00 CEA-01 CIAE-00
COME-00 DODE-00 EB-08 FRB-03 H-01 INR-10 INT-05
L-03 LAB-04 NSAE-00 NSC-05 PA-01 CTME-00 AID-05
SS-15 ITC-01 TRSE-00 ICA-11 SP-02 SOE-02 OMB-01
DOE-15 AGR-01 AF-10 ARA-10 EA-10 NEA-10 OIC-02
JUSE-00 DOEE-00 SSO-00 /169 W
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P 041122Z JUL 78
FM USMISSION GENEVA
TO SECSTATE WASHDC PRIORITY 1626
INFO AMEMBASSY BRUSSELS

LIMITED OFFICIAL USE SECTION 01 OF 03 GENEVA 10103

USMTN, USEEC
ACTION STR PASS ELECTRICALLY
STR PASS CODEL

E.O.11652:N/A
TAGS: MTN, ETRD, EEC
SUBJECT: US-EC BILATERAL ON INDUSTRIAL TARIFFS, JUNE 29

REF: STATE 165007

1. SUMMARY. U.S. MTN DEL (MCNAMARA, ET AL) AND EC COMMISSION WITH MEMBER STATES PRESENT (DUGIMONT ET AL) MET IN A FULL DAY SESSION ON JUNE 29 WITH THE AGENDA HEAVILY WEIGHTED TOWARD U.S. EXPLANATION OF ITS REVISED TARIFF OFFER. WE ALSO TOOK THE OPPORTUNITY TO EXPAND ON OUR ARGUMENTS FOR EC TARIFF IMPROVEMENTS IN CHEMICALS, PAPER, AIRCRAFT, TRUCKS, AND ADP/SEMICONDUCTORS. WE EXPLAINED IN CONSIDERABLE DETAIL THE ASP CONVERSION, STRESSED THE IMPORTANCE WE ATTACH TO OBTAINING RECIPROCITY FOR THE ELIMINATION OF THIS VALUATION SYSTEM, AND MADE
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PAGE 02 GENEVA 10103 01 OF 03 041200Z

SPECIFIC LINKAGES TO ADDITIONAL EC TARIFF CUTS IN THE CHEMICAL SECTOR AND PROGRESS ON RULES OF ORIGIN. THE EC HAD LITTLE TO CONTRIBUTE, BUT DG III REP (LISSOK) WHO WAS PRESENT INDICATED BY HIS RESPONSES THAT U.S. REQUESTS WERE RECEIVING SERIOUS, IN-DEPTH EXAMINATION BY COMMISSION PRODUCT EXPERTS. END SUMMARY.

2. EXPLANATION OF U.S. REVISED OFFER: FOLLOWING CLOSELY GUIDANCE PROVIDED IN TPSC 78-75, U.S. DEL EXPLAINED U.S. REVISED TARIFF OFFER AS IT RELATED TO ASP ITEMS, THE DEFERRED ESCAPE CLAUSE ITEMS AND FINAL LIST CONVERSIONS. WE ACKNOWLEDGED THAT OFFERS ON TSUS 700.60 AND CERAMIC DINNERWARE HAD YET TO BE PRESENTED, BUT THIS ACTION WAS IMMINENT. WE PROVIDED LENGTHY EXPLANATION OF THE METHODOLOGY USED IN THE ASP CONVERSION IN AN ATTEMPT TO HEAD OFF EC COMPLAINTS THAT THE ASP CONVERSION WAS SO COMPLEX AS TO MAKE IT IMPOSSIBLE TO EVALUATE FOR NEGOTIATING PURPOSES.

3. EC REACTION WAS PREDICTABLE: "FIRST IMPRESSION" IS THAT U.S. OFFER IS STILL INCOMPLETE. SEVERAL PRODUCTS -- RUBBER FOOTWEAR, CERAMIC DINNERWARE -- WERE STILL NOT INCLUDED AND WATCH OFFER IS STILL DEFECTIVE. ALTHOUGH DUGIMONT HAD COPIES OF THE PROPOSED DINNERWARE NOMENCLATURE GIVEN TO EC DELEGATION IN WASHINGTON, HE HAD BEEN LED TO BELIEVE IT WAS "TOO TENTATIVE" TO PASS ON TO MEMBER STATES. FINALLY, EC DEL POINTED OUT THAT THE U.S. OFFER WAS THE ONLY DC OFFER STILL NOT EXPRESSED IN TERMS OF LEGAL RATES. IT SEEMED CLEAR EC INTENDS TO DEFEND ITS OWN INACTION AS A RESPONSE TO THE U.S. "INCOMPLETENESS" FOR AS LONG AS IT CAN.

4. CONVERSION OF SPECIFIC RATES: PER WASHINGTON LIMITED OFFICIAL USE

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PAGE 03 GENEVA 10103 01 OF 03 041200Z

GUIDANCE, WE NOTED THAT WE EXPECTED THE JULY 15 AGREEMENT TO INCLUDE PROVISION FOR RATE CONVERSIONS BY U.S. WITH RESULTS INCORPORATED IN THE FINAL MTN PACKAGE. AGAIN EC LINE WAS UNCHANGED AND SHOWED NO SIGN OF FLEXIBILITY, I.E., CONVERSIONS MUST BE UNDERTAKEN THROUGH ARTICLE XXVIII. DUGIMONT URGED THAT U.S. DELAY CONVERSIONS UNTIL AFTER MTN TARIFFS PROTOCOL IS SIGNED. U.S. DEL MADE POINT THAT WHILE WE DON'T YET KNOW HOW EXTENSIVE OUR CONVERSIONS MIGHT BE, THEY PROBABLY WOULD BE OF MANAGEABLE PROPORTIONS. WE SUGGESTED THAT MTN AND ARTICLE XXVIII-TYPE NEGOTIATIONS MIGHT BE MERGED IN THE POST-JULY 15 PERIOD, BUT DUGIMONT OFFERED NO ENCOURAGEMENT.

5. TSUS SIMPLIFICATION: EC WAS CONSIDERABLY LESS DOGMATIC ABOUT ITS GATT RIGHTS ON THIS QUESTION. WE POINTED OUT THAT NO RATE INCREASES WERE CONTEMPLATED AND HENCE NO ARTICLE XXVIII NOTIFICATION WAS ENVISAGED. THE EC'S ANNOUNCED INTENTION TO MAKE SOME NOMENCLATURE CHANGES OF ITS OWN (PERHAPS 200 TARIFF LINES OR ABOUT 7 PERCENT OF ITS CXT) PROBABLY CONTRIBUTED TO ITS MODERATION.

6. ASP/FINAL LIST AND RECIPROCITY: EC WAS PARTICULARLY

INTERESTED IN KNOWING THE DETAILS OF THE ASP/FINAL LIST
CHANGES. THEY HAD DONE THEIR HOMEWORK, TRYING TO
DUPLICATE THE CURRENT AVE'S FROM OFFICIAL STATISTICS.
BY THEIR COMPUTATIONS, THE CONVERTED RATE FOR TIRES WAS
TOO HIGH; ON 403.02 THE CONVERTED AVE WAS HIGHER THAN
COULD BE EXPLAINED BY THE INCREASE IN AD VALOREM PORTION
OF THE COMPOUND RATE AS SHOWN ON THE JANUARY 23 U.S. OFFER
AND THE JUNE 19 CONVERTED AD VALOREM PORTION. WE RELIED
ON USITC STUDY TO EXPLAIN FINAL LIST CONVERSIONS BASED ON
NEW YORK ENTRIES ALONE, AND ASP CONVERSIONS TO REFLECT
RATES BASED ON ACTUAL TRANSACTION VALUE INSTEAD OF FAS
AS SHOWN IN OFFICIAL STATISTICS. (FYI: IT WOULD BE
ESPECIALLY HELPFUL IF WE COULD CONVEY TO EC AND OTHER
DELEGATIONS THOSE PORTIONS OF USITC REPORT WHICH DEAL WITH
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PAGE 04 GENEVA 10103 01 OF 03 041200Z

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PAGE 01 GENEVA 10103 02 OF 03 041209Z
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DOE-15 AGR-01 AF-10 ARA-10 EA-10 NEA-10 OIC-02
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LIMITED OFFICIAL USE SECTION 02 OF 03 GENEVA 10103

USMTN, USEEC
ACTION STR PAS ELECTRICALLY
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THE METHODOLOGY OF THE CONVERSIONS. CAN WE DO THIS

INFORMALLY, OR IS USITC STUDY TO BE RELEASED WITH BUSINESS CONFIDENTIAL, ADVICE TO THE PRESIDENT, ETC., PORTIONS DELETED?)

7. HIGHLIGHT OF THE MEETING OCCURRED WHEN U.S. DEL ENUMERATED OUR REQUIREMENTS FOR AN ELIMINATION OF ASP/FINAL LIST. EC RESPONSE WAS QUICK: THE EC IS PREPARED TO LOOK AT RULES OF ORIGIN IN SOME CASES BUT IS NOT PREPARED TO MAKE A BLANKET CHANGE IN RULES OF ORIGIN IN THE CONTEXT OF THIS NEGOTIATION. EC RESPONSE WAS LESS DEFINITIVE ON U.S. REQUEST FOR MAINTENANCE AND IMPROVEMENT IN EC OFFER ON FERTILIZERS AND PLASTICS, BUT HARDLY POSITIVE. ON ORGANIC CHEMICALS THEY QUERIED US ABOUT WHAT "25 PERCENT ACROSS THE BOARD" MEANT. UNFORTUNATELY TPSC 78-75 IS NOT CLEAR ON THIS POINT AND WE PROMISED LIMITED OFFICIAL USE

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PAGE 02 GENEVA 10103 02 OF 03 041209Z

FURTHER CLARIFICATION TO INCLUDE DEFINITION OF ORGANIC CHEMICALS BY CXT NUMBER. EC WAS QUICK TO REALIZE THAT BULK OF COMPETITIVE ARTICLES AND NEW PRODUCTS WOULD BE PLACED IN THE "OTHER" ASP CATEGORIES AT HIGHER CONVERTED RATES AND TAKEN AS FULL AND PARTIAL EXCEPTIONS.

8. IMPROVEMENTS IN THE U.S. OFFER: EC DEL NOTED ONLY U.S. IMPROVEMENT WAS ON CERTAIN BICYCLE PARTS. WE RESPONDED U.S. WOULD OFFER IMPROVEMENTS IF AND WHEN THE SITUATION CALLED FOR IT AND SUCH IMPROVEMENTS MAY BE OFFERED AT DIFFERENT LEVEL. NEVERTHELESS, IT APPEARED TO U.S. THAT THE U.S. OFFER, PARTICULARLY IN CHEMICALS, WAS SUPERIOR TO THE EC'S, WHICH, FURTHERMORE, HAS CHEMICALS PROMINENTLY FEATURED ON LISTS OF POSSIBLE WITHDRAWALS. MCNAMARA INDICATED THAT WITHOUT A RESPONSE TO U.S. GREATER THAN FORMULA OFFERS, IT WOULD BE IMPOSSIBLE TO RETAIN THE U.S. OFFER AS IT NOW STANDS. DUGIMONT NOTED THAT THE EC WAS LOOKING AT U.S. OFFERS (AND U.S. REQUESTS FOR IMPROVEMENT) ON AIRCRAFT AND "SOME FEW OTHER ITEMS," BUT THE TARIFF/NTM BALANCE WOULD HAVE TO BE ASSESSED.

9. PRODUCT SECTORS OF U.S. INTEREST:

(A) MTN DEL AGAIN STRESSED THE HIGH PRIORITY IT PLACED ON IMPROVEMENT OR MAINTENANCE OF EC OFFERS IN CHEMICALS (INCLUDING PLASTICS AND FERTILIZERS); PAPER; ELECTRONIC DATA PROCESSING EQUIPMENT INCLUDING SEMI-CONDUCTORS; AND HEAVY DUTY TRUCKS. ON CHEMICALS, WE DISTRIBUTED A COMPARATIVE OFFERS TABLE HIGHLIGHTING LARGE DISPARITIES IN DEPTH-OF-CUT AND POST-MTN RATES IF THE EC CARRIES OUT ITS THREATENED WITHDRAWALS. THE EC RESPONDED THAT WE WERE AWARE THAT ITS POSSIBLE WITH-

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PAGE 03 GENEVA 10103 02 OF 03 041209Z

DRAWALS ON CHEMICALS HAD BEEN IN PART A RESPONSE TO THE LACK OF A U.S. OFFER ON ASP CHEMICALS. NOW THAT THIS OFFER WAS ON THE TABLE, THE EC WOULD HAVE TO STUDY ITS VALUE, AND WEIGH THIS ALONG WITH THE OFFERS OF OTHERS TO DETERMINE WHAT WOULD BE A RECIPROCAL OFFER BY THE EC.

(B) THE EC DEL ACKNOWLEDGED U.S. CONCERNS ON PAPER BUT COULD NOT YET REACT TO OUR REQUEST FOR MAINTENANCE OR IMPROVEMENT OF BROADLY DEFINED EXOUTS (SUBMITTED BY U.S. AT LAST SESSION). ON TRUCKS, U.S. DEL SUGGESTED THAT EC FIND SOME MEANS OF PRODUCT DIFFERENTIATION TO COVER EC FEAR OF JAPANESE IMPORT INCURSIONS IN THE FUTURE. EC DEL REP FROM DG III SAID SUCH DIFFERENTIATION WAS BEING STUDIED, BUT THAT THE U.S. SHOULD UNDERSTAND THAT THE JAPANESE PROBLEM WAS ALREADY MANIFESTING ITSELF IN THIRD MARKETS TRADITIONALLY DOMINATED BY EC PRODUCERS. THE LOSS OF THESE EXTERNAL MARKETS MADE EC PRODUCERS EXTREMELY SENSITIVE TO INCREASED ACCESSIBILITY TO ITS HOME MARKET.

(C) IN A DISCUSSION OF EC POSSIBLE WITHDRAWALS ON SEMICONDUCTORS, WE WERE CAREFUL TO NOTE AGAIN THAT THE U.S. PLACED HIGH PRIORITY ON MAINTENANCE OF OFFERS ON ENTIRE TARIFF LINE, INCLUDING TRANSISTORS, THYRISTORS, ETC., AS WELL AS ON INTEGRATED CIRCUITS WHERE WE HAD SUGGESTED THE POSSIBILITY OF AN EXOUT BASED UPON NUMBER OF ACTIVE ELEMENTS. IN REVIEWING THIS SUGGESTED EXOUT, WE REITERATED THAT SUCH A CONCESSION WOULD HAVE TO INCLUDE PROVISION FOR INCREASES IN THE THRESHOLD (NUMBER OF ELEMENTS) OVER TIME. EC DEL RESPONDED THAT ITS TECHNICAL EXPERTS HAD STUDIED THE SUGGESTED EXOUT AND FOUND THAT "ACTIVE ELEMENTS" WAS NOT A FEASIBLE DISTINCTION FOR CUSTOMS PURPOSES. HE ASSERTED THAT NUMBER OF ELEMENTS PER IC WAS CONSIDERED A COMMERCIAL SECRET BY MANY FIRMS AND WAS NOT MARKED ON IC DEVICES CONTRARY TO INFORMATION PROVIDED BY ISAC 22 MEMBER (AND NOT NOTED LIMITED OFFICIAL USE

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PAGE 04 GENEVA 10103 02 OF 03 041209Z

IN HEURISTIC GLOSSARY IN REFTEL). THE EC IS CURRENTLY STUDYING ALTERNATIVES TO AN EXOUT BASED ON ELEMENTS AND IT MENTIONED THAT SPEED, OR POWER CONSUMPTION MIGHT BE ALTERNATIVES. WHILE URGING EC TO OFFER CONCESSION ON

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PAGE 01 GENEVA 10103 03 OF 03 041211Z
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LIMITED OFFICIAL USE SECTION 03 OF 03 GENEVA 10103

USMTN, USEEC
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ENTIRE 85.21DII, WE SUGGESTED THAT IF THIS WAS NOT
POSSIBLE, EC SHOULD BE FAR MORE SELECTIVE IN WITHDRAWING
PRODUCTS IN THIS BASKET CATEGORY. WE AGAIN STATED OUR
CONCERN WITH THE POSSIBLE WITHDRAWAL ON 84.52A, ELECTRONIC
CALCULATORS, AND REQUESTED EXOUT AS SUGGESTED IN REFTTEL.
THE EC WAS STILL NOT FULLY INFORMED ON THE CCCN CLAS-
SIFICATION CHANGES IN ADP AREA BUT WAS STUDING THE
MATTER AND WOULD RESPOND AS QUICKLY AS POSSIBLE.

(D) ONLY A BRIEF DISCUSSION OF AIRCRAFT WAS HELD
BECAUSE DUGIMONT PRIVATELY ASKED THAT WE NOT GET INTO
AIRCRAFT AT THIS TIME SINCE THE EC COMMISSION FELT THAT
IT HAD NOT BEEN GIVEN SUFFICIENT FLEXIBILITY BY THE
COUNCIL TO ENTER INTO TECHNICAL DISCUSSIONS WITH THE
U.S. (FYI: A DETAILED DISCUSSION WITH THE EC WITHOUT
MEMBER STATES PRESENT OR AWARE OF THE MEETING IS TO BE
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PAGE 02 GENEVA 10103 03 OF 03 041211Z

HELD JULY 6.) DUGIMONT PRIVATELY COMMENTED TO USMTN DEL

THAT U.S. PROPOSED DECLARATION ON AIRCRAFT FOR JULY 15
SETTLEMENT WAS FAR TOO AMBITIOUS WITHIN PRESENT TIME-
FRAME; HE CORRECTLY NOTED THAT U.S. DOES NOT HAVE
AUTHORITY TO OFFER ZERO DUTIES ON MUCH OF AVIONICS, AND
OBSERVED THAT MOST THAT COULD BE ACHIEVED THEN IS
AGREEMENT ON DUTY-FREE TREATMENT OF AIRCRAFT, AIRCRAFT
ENGINES, AND PARTS.

10. DRAFTED BY MALISH/MARSH. MCDONALD

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Message Attributes

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Disposition Approved on Date:
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